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RUEHBY/AMEMBASSY CANBERRA PRIORITY 1574  
RUEHLO/AMEMBASSY LONDON PRIORITY 1436  
RUEHMO/AMEMBASSY MOSCOW PRIORITY 0937  
RUEHFR/AMEMBASSY PARIS PRIORITY 4872  
RUEHUL/AMEMBASSY SEOUL PRIORITY 7397  
RUEHGP/AMEMBASSY SINGAPORE PRIORITY 6557  
RUEHWL/AMEMBASSY WELLINGTON PRIORITY 0852  
RUEHFK/AMCONSUL FUKUOKA PRIORITY 5203  
RUEHOK/AMCONSUL OSAKA KOBE PRIORITY 8346  
RUEHKSO/AMCONSUL SAPPORO PRIORITY 6388  
RUEAIIA/CIA WASHDC PRIORITY  
RUEKJCS/CJCS WASHINGTON DC PRIORITY  
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S E C R E T SECTION 01 OF 03 TOKYO 001446

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DEPARTMENT PLEASE PASS TO EAP/FO, ISN/FO AND ISN/WMDT

E.O. 12958: DECL: 03/16/2016

TAGS: [PARM](#) [PREL](#) [MNUC](#) [KNNP](#) [EWWT](#) [PHSA](#) [KN](#) [JA](#)

SUBJECT: DPRK FLAGS OF CONVENIENCE

REF: A. STATE 22855

[1](#)B. STATE 204250

[1](#)C. TOKYO 006357

[1](#)D. WELLINGTON 000900

[1](#)E. TOKYO 000800

Classified By: Acting Political Minister Counselor Carol T. Reynolds.

Reason: 1.4 (b),(d)

[1](#)1. (S) Following up on questions raised by MOFA in February 2006 (reftel), Bureau of International Security and Nonproliferation officials Anthony Ruggiero and Jae Jo met with MOFA Northeast Asia Division Director Naoki Ito in Tokyo on March 10, 2006 to deliver a non-paper on DPRK flags of convenience and the insurance of DPRK vessels seeking to make port calls in Japan (at para 5). Director Ito expressed the Japanese government's appreciation for the additional information and promised to provide a formal response on possible actions Japan may take after carefully consider it. In the meantime, Ito stated that the Ministry of Foreign Affairs would:

-- provide the USG with a list of all DPRK vessels currently authorized to visit Japan;

-- share the new information provided with appropriate Japanese law enforcement agencies; and

-- discuss SEPIA's claim to be a registered Liechtenstein entity for the sale of maritime P&I insurance with appropriate authorities in Liechtenstein.

[1](#)2. (S) Ito explained there is high-level interest in Japan in finding ways to strengthen existing law enforcement measures on various fronts to address DPRK illicit activities, but cautioned that under existing Japanese law, the Ministry of Land, Transportation and Infrastructure (MLIT) must accept "Certificate of Insurance or Other Financial Guarantee Regarding Civil Liability for Oil

Pollution Damage (CLC)" issued by CLC signatory countries. Ruggiero noted that one of the certificates that Ito had passed to ISN A/PDAS Record in February listed Vaduz, Liechtenstein as SEPIA's place of business. Liechtenstein authorities, however, have told the U.S. Government that this claim is false. Ito emphasized that Japanese authorities viewed the certificate as valid because it was issued by a CLC signatory (Panama). Ruggiero responded that we would approach Panama with our concerns about SEPIA in general, and this particular certificate in particular, and would share the results of that consultation with Japan.

13. (S) Ruggiero asked about the Japanese boarding of the DPRK freighter Kwang Kum San the week of March 6. In particular, the U.S. Government was interested in why Japan boarded the ship, which agencies were involved, whether the vessel was insured by SEPIA or MMIA, and what Japan found aboard the ship. Ito confirmed that officials from MLIT, the Japanese Coast Guard, Ministry of Finance, Ministry of Justice, and National Policy Agency had conducted an inspection of the ship, but had found nothing suspicious. Ito and Ruggiero speculated the ship probably was insured by MMIA or SEPIA in accordance with Japan's P&I law. Ito agreed to check with the relevant ministries for further details and report back to the U.S. Government.

14. (S) Begin nonpaper delivered to MOFA on March 10, 2006

-- The United States continues to research the insurance of North Korean flagged vessels. Our goal is use all legal means to combat North Korean proliferation and illicit activities and Pyongyang's efforts to hide such activities

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within legitimate commerce.

-- The United States appreciates our joint efforts in reviewing attempts by North Korean-flagged ships to circumvent full compliance with Japanese insurance requirements for ships entering Japanese ports.

-- We want to share with you additional information regarding SEPIA.

-- In the past, North Korea used two suspect insurance companies (MMIA and SEPIA) in response to the Japanese law on P&I insurance.

-- It is now clear that MMIA will no longer insure DPRK flagged vessels and we learned additional information on why MMIA decided to end its insurance of DPRK-flagged vessels.

-- We have learned that MMIA and North Korea were engaged in a claims dispute following what MMIA considered to be the intentional grounding of a North Korean vessel. In addition, MMIA believed its reputation was damaged from negative publicity within the maritime insurance industry over the company's connection with North Korea.

-- DPRK-flagged vessels have now turned to SEPIA, also a questionable insurer, rather than raising its standards to get legitimate insurance coverage.

-- SEPIA insures vessels engaged in proliferation and other illicit activities and may not have sufficient financial resources to provide insurance.

-- Our concerns about SEPIA remain and have increased as we receive additional information on SEPIA's insurance of DPRK flagged vessels.

-- Your government passed us a "Certificate of Insurance or Other Financial Guarantee Regarding Civil Liability for Oil Pollution Damage (CLC)" listing SEPIA as the insurer of a DPRK flagged vessel and claiming its address as Vaduz, Liechtenstein.

-- We know SEPIA in its brochure claims to be a registered Liechtenstein entity that manages its insurance business. However, the Government of Liechtenstein has told us that SEPIA is not authorized to sell insurance out of Liechtenstein. This is another example of SEPIA's questionable practices.

-- We would encourage Japan to reach out to Liechtenstein directly to confirm that SEPIA is not authorized to sell insurance from its Vaduz office.

-- We believe that SEPIA continues to confuse prospective clients and investigators by cashing in on the good name of the reputable North of England Protection and Indemnity Association.

-- We are also concerned that SEPIA will not cover damages caused by North Korean ships. Standard P&I policies do not cover damages arising from illegal activities, and if a North Korean ship causes damage to Japan's waters while conducting illegal activities, the insurer may deny compensation.

-- In addition to questions about SEPIA's legitimacy, we know DPRK ships insured by SEPIA have engaged in dangerous and illicit activities. These ships are also controlled by DPRK military and intelligence organizations.

-- Several of these ships are owned by Kangsong General

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Trading Company, which in turn belongs to the North Korean People's Armed Forces. Kangsong also owns the merchant vessel Chang Dok, which has shipped arms to customers in Africa and missile components to Yemen.

-- Additional ships are owned by the North Korea's Operations Department, which is the intelligence organization responsible for conducting sea-borne infiltrations to facilitate intelligence and illicit activities such as drug smuggling, infiltrating operatives, and conducting abductions and assassinations.

-- At least two of the ships are also owned by the North Korean military's Reconnaissance Bureau, which is responsible for conducting infiltration, intelligence collection, and sabotage operations.

-- Several of the ships are owned by Office 39, which is responsible for both legal and illegal foreign currency earning operations to earn hard currency for Kim Jong-il's regime.

-- We also have information that the North Korean passenger ship Mangyongbong 92, insured by SEPIA, has been used by North Korean intelligence services Office 35, External Liaison Department (ELD), and the Unification Front Department (UFD) as a safehouse to facilitate agent meetings while docked in Niigata, Japan.

-- We would also appreciate any additional information that your government has on the numbers and names of North Korean ships insured by SEPIA.

-- We are aware that Japan boarded the Hwang Kum San earlier this week and we know this ship has been engaged in proliferation related activities. We would welcome further information on this ship including whether it is insured by MMIA or SEPIA.

End Nonpaper.

15. (U) This message has been cleared by ISN Anthony Ruggiero.  
SCHIEFFER